

Starhill Global REIT (SGREIT SP)

Buy (Maintained)

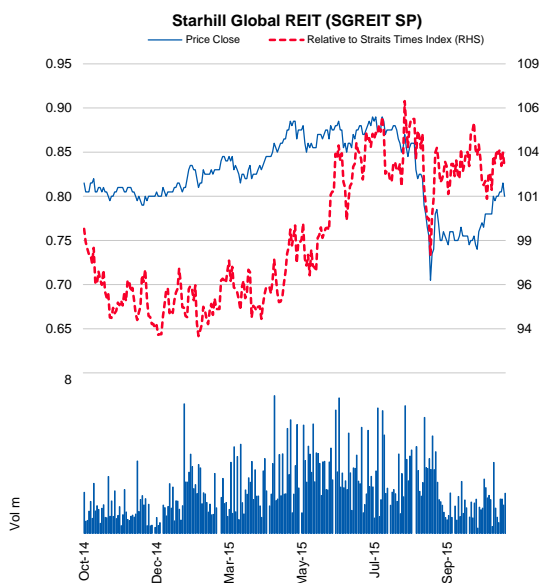
Property - REITS

 Target Price: **SGD0.93**

Market Cap: USD1,252m

 Price: **SGD0.80**

Well-Supported By Its Australian Asset

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	1.66m/1.19m
Cons. Upside (%)	13.8
Upside (%)	16.3
52-wk Price low/high (SGD)	0.71 - 0.89
Free float (%)	64
Share outstanding (m)	2,181
Shareholders (%)	
YTL Corp	36.3
AIA Group Ltd	8.9
State Street Corp	0.9

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	7.4	(7.5)	(9.6)	(1.9)
Relative	8.4	(1.4)	(0.5)	2.7	2.5

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Starhill Global REIT's 1QFY15/16 results were in line, as it announced DPU growth of 3.1% YoY, meeting c.25% of our full-year estimate. We reiterate BUY, with a DDM-derived TP of SGD0.93 implying an upside of 16.3%. The results were mainly well-cushioned by the recently-acquired Myer Centre Adelaide, while the performance of its core Singapore portfolio remained robust.

- ◆ **Results in line.** Starhill Global REIT's 1QFY15/16 results were within our expectations as its distribution per unit (DPU) of 1.31 cents met c.25% of our full-year estimate. It reported increases in distributable income and DPU by 4.5% and 3.1% YoY respectively. The growth was mainly driven by the full-quarter contribution from the recently-acquired Myer Centre Adelaide, and a strong performance from its Singapore portfolio. The REIT's borrowings are fully hedged, while its gearing level remained healthy at 35.7% with interest coverage of 4.5x. According to a sensitivity test conducted by the REIT, a 1.0% pa increase on floating rates would have resulted in a -1.3% change in its latest quarter's DPU.
- ◆ **Singapore occupancy levels remain robust, while rental reversion was impacted by a small group of tenants.** On its Singapore portfolio front, occupancy inched up slightly to 99.7%, while retail space was fully occupied. Although a negative rental reversion of 7.3% was registered for its Singapore retail space, we are not overly concerned as: i) leases that are committed accounted for 3% of its retail portfolio's revenue (this excludes the Toshin master lease at Ngee Ann City Retail), ii) these leases were modified to complement new retail concepts, and iii) we remain optimistic, as tenant sales increased 1.1% YoY.
- ◆ **Maintain BUY, with an unchanged TP of SGD0.93.** We remain optimistic on the REIT's long-term growth plans, which include projects like the AUD10m redevelopment plan to optimise the upper-storey space at Plaza Arcade – it is currently in discussions with prospective anchor tenants on this matter. In addition, there is also potential for leasable area to be expanded (~100,000 sq ft) when Wisma Atria is linked up with the new Thomson Line Orchard MRT in 2021. Reiterate BUY with an unchanged TP of SGD0.93.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	201	295	222	238	241
Net property income (SGDm)	158	238	173	187	189
Reported net profit (SGDm)	248	191	407	124	119
Total distributable income (SGDm)	105	164	114	120	122
DPS (SGD)	0.05	0.08	0.05	0.05	0.06
DPS growth (%)	13.9	52.0	(31.1)	4.9	1.5
Recurring P/E (x)	6.7	9.2	4.3	14.3	14.9
P/B (x)	0.87	0.89	0.77	0.77	0.77
Dividend Yield (%)	6.1	9.3	6.4	6.7	6.8
Return on average equity (%)	12.7	9.6	19.0	5.4	5.2
Return on average assets (%)	8.6	6.2	12.1	3.5	3.4
Interest coverage ratio (x)	4.31	6.99	3.28	4.16	3.61

Source: Company data, RHB

Figure 1: Starhill Global REIT's 1QFY15/16 results summary

(SGDm)	3Q14	6Q15	1Q16	% QoQ	% YoY	RHB FY15/16F	% of FY15/16F	Comments
Gross revenue	48.6	51.8	56.8	9.6	16.8	221.9	23.3	Revenue for the group in 1Q FY15/16 grew 16.8% YoY, mainly due to the full-quarter contribution from Myer Centre Adelaide as well as stronger performance of Singapore properties.
Operating expenses	(9.0)	(10.5)	(13.2)	25.6	45.7	(48.8)	21.5	
NPI	39.6	41.3	43.6	5.6	10.2	173.1	23.9	
Dividend income	0.0	0.0	0.0	nm	nm	0.0	nm	
FV adj on security deposits	(0.1)	(0.1)	(0.2)	61.7	106.4	0.0	nm	
Management fees	(3.7)	(3.9)	(4.0)	1.6	7.4	(15.7)	25.1	
Performance fees	0.0	0.0	0.0	nm	nm	0.0	nm	
Trust expenses	(0.8)	(0.9)	(0.9)	2.7	17.0	(3.4)	25.1	
Net income before financing cost & tax	35.0	36.4	38.5	5.9	10.1	153.9	23.6	
Interest income	0.3	0.2	0.2	(19.7)	(28.9)	0.7	35.9	
Borrowing costs	(8.0)	(8.8)	(9.6)	9.5	21.0	(40.0)	22.0	
EBT	27.3	27.8	29.1	4.5	6.6	114.6	24.3	
Gains from property divestments	0.0	0.0	0.0	nm	nm	0.0	nm	
Gains from revaluation	0.0	(25.4)	0.0	nm	nm	302.4	nm	
Gains from derivatives	1.6	(2.1)	3.2	nm	91.9	0.0	nm	The increase in tax expense was mainly attributed to higher withholding tax provisions for the Australia properties, partially offset by a lower corporate tax and withholding tax provision for Renhe Spring Zongbei Property.
Total return before tax	29.0	0.3	27.1	8,319.3	(6.4)	417.0	0.1	
Tax	(0.7)	2.4	(0.9)	nm	18.0	(3.0)	nm	The increase in tax expense was mainly attributed to higher withholding tax provision for the Australia Properties, partially offset by lower corporate tax and withholding tax provision for Renhe Spring Zongbei Property.
Total return - reported	28.2	2.8	26.2	850.1	(7.0)	414.0	0.7	
Total return (ex exceptionals)	26.6	30.3	23.1	(23.8)	(13.2)	111.6	27.1	
Add-back: Non tax deductibles	0.3	26.7	3.8	(85.7)	1,014.6	(299.8)	nm	
Income available for distribution	28.6	29.5	30.0	2.0	5.2	114.2	25.8	
Distributable income - CPU holders	0.3	0.0	0.0	nm	nm	0.0	nm	
Income available for unitholders	28.3	29.5	30.0	2.0	6.2	114.2	25.8	
Distributable income - unitholders	27.3	28.1	28.6	1.5	4.5	114.2	24.6	
Number of units (end of period) ('m)	2,153	2,181	2,181	0.0	1.3	2,181	100.0	
DPU (SGD-cts)	1.27	1.29	1.31	1.6	3.1	5.24	24.6	
Unitholders funds per share (SGD)	0.92	0.91	0.90	(1.5)	(3.0)	1.06	85.7	
Payout ratio (%)	96.7	95.5	95.1	(0.4) ppt	(1.6) ppt	100.0		
NPI margins (%)	81.4	79.8	76.8	(2.9) ppt	(4.6) ppt	78.0		

Source: RHB

Figure 2: Performance of key metrics

Operating Performance:	3Q14	4Q14	5Q14	6Q14	1Q16
Portfolio Occupancy: (%)	99.1	99.6	99.1	98.2	98.3
Retail Rental Reversion: (%)	6.7	17.0	13.3	3.9	-7.3
DPU (SG cts)	1.27	1.29	1.26	1.29	1.31
	FY-1	FY-2	FY-3	FY-4	≥FY-5
Lease Expiry Profile: (Gross Rent %)	24.5	14.7	18.6	9.4	32.8
Capital Management:	3Q14	4Q14	5Q14	6Q14	1Q16
All-in cost of borrowing: (%)	3.15	3.16	3.13	3.19	3.13
Aggreg. Leverage: (%)	29.1	28.6	28.7	35.5	35.7
Term of Debt: (yrs)	3.6	3.3	3.1	4.8	3.8

Source: Company data

Figure 3: Starhill Global REIT's DDM valuation

	FY15F	FY16F	FY17F	FY18F	Terminal value
DPU (SGD cts)	5.24	5.50	5.58	5.65	95.59
Fair value (SGD)	0.93				
Current price (SGD)	0.80				
Price upside (%)	16.3				
Distribution yield (%)	6.5				
Total return (%)	22.8				
Assumptions					
Risk-free rate (%)	3.0				
Beta	0.63				
Cost of equity (%)	6.9				
Terminal growth (%)	1				

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	201	295	222	238	241
Property operating expenses	(43)	(57)	(49)	(51)	(52)
Net property income	158	238	173	187	189
Management fees	(14)	(22)	(16)	(17)	(17)
Trust expenses	(3)	(4)	(3)	(4)	(4)
Operating EBIT	141	211	154	166	168
Depreciation of fixed assets	(0)	(1)	(0)	(0)	(0)
Operating EBITDA	141	212	154	167	169
Net income from investments	138	9	302	-	-
Other recurring income	5	(1)	-	-	-
Interest income	1	2	1	1	1
Interest expense	(33)	(30)	(47)	(40)	(47)
Pre-tax profit	251	190	410	127	123
Taxation	(3)	1	(3)	(3)	(3)
Profit after tax & minorities	248	191	407	124	119
Reported net profit	248	191	407	124	119
Adjustment for distributable income	(143)	(27)	(293)	(4)	2
Total distributable income	105	164	114	120	122

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	141	211	154	166	168
Depreciation & amortisation	0	1	0	0	0
Change in working capital	4	4	0	0	0
Other operating cash flow	(30)	(45)	264	(44)	(43)
Operating cash flow	115	171	419	123	126
Interest paid	30	45	39	46	46
Tax paid	(4)	(4)	(3)	(3)	(3)
Cash flow from operations	141	213	455	166	169
Capex	(3)	(4)	(289)	14	14
Other investing cash flow	(56)	(312)	(8)	(10)	(11)
Cash flow from investing activities	(59)	(316)	(297)	5	4
Dividends paid	(100)	(162)	(114)	(120)	(122)
Increase in debt	38	308	305	-	-
Other financing cash flow	(40)	(46)	(40)	(47)	(47)
Cash flow from financing activities	(102)	100	151	(166)	(169)
Cash at beginning of period	79	58	52	366	367
Total cash generated	(20)	(3)	309	4	4
Forex effects	(2)	(3)	(3)	(3)	(3)
Implied cash at end of period	58	52	358	367	368

Source: Company data, RHB

Financial Exhibits

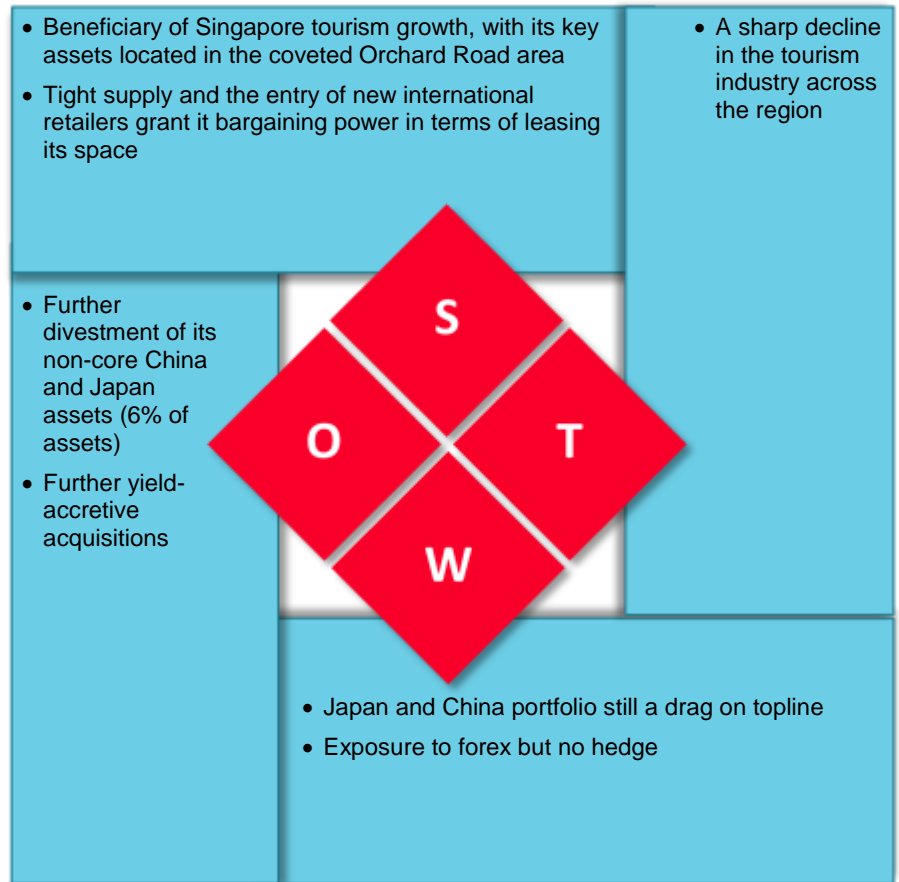
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	58	52	366	367	368
Accounts receivable	10	5	11	11	11
Other current assets	0	0	0	0	0
Total current assets	68	57	377	378	379
Total investments	2,854	3,116	3,145	3,145	3,145
Tangible fixed assets	1	1	1	1	1
Total other assets	19	19	23	23	23
Total non-current assets	2,875	3,137	3,169	3,169	3,169
Total assets	2,943	3,193	3,545	3,547	3,548
Short-term debt	54	146	54	54	54
Accounts payable	43	37	44	44	45
Other current liabilities	2	2	2	2	2
Total current liabilities	99	185	100	100	100
Total long-term debt	792	983	1,089	1,089	1,089
Other liabilities	42	42	43	43	44
Total non-current liabilities	834	1,025	1,132	1,132	1,133
Total liabilities	933	1,211	1,231	1,232	1,233
Share capital	2,010	1,983	2,314	2,314	2,315
Shareholders' equity	2,010	1,983	2,314	2,314	2,315
Total equity	2,010	1,983	2,314	2,314	2,315
Total liabilities & equity	2,943	3,193	3,545	3,547	3,548

Source: Company data, RHB

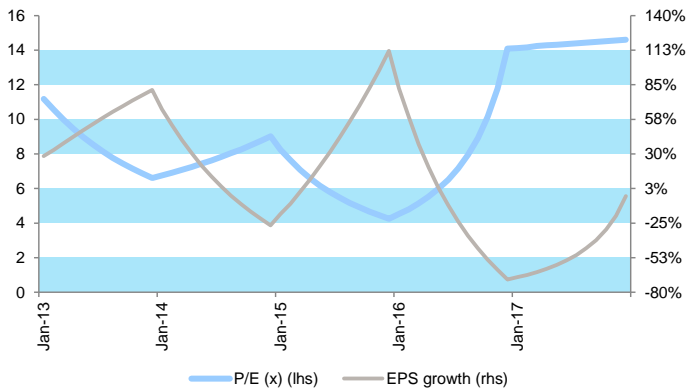
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	7.9	46.9	(24.7)	7.3	1.4
Net profit growth (%)	90.6	(23.0)	113.3	(69.6)	(3.6)
EPS growth (%)	80.9	(26.7)	111.9	(69.8)	(3.6)
BVPS growth (%)	(3.6)	(1.4)	15.2	0.0	0.0
Net profit margin (%)	123.5	64.8	183.5	52.0	49.5
Return on average assets (%)	8.6	6.2	12.1	3.5	3.4
Return on average equity (%)	12.7	9.6	19.0	5.4	5.2
Net debt to equity (%)	39.2	54.4	33.6	33.5	33.5
DPS	0.05	0.08	0.05	0.05	0.06
Recurrent cash flow per share	0.07	0.10	0.21	0.08	0.08

Source: Company data, RHB

SWOT Analysis

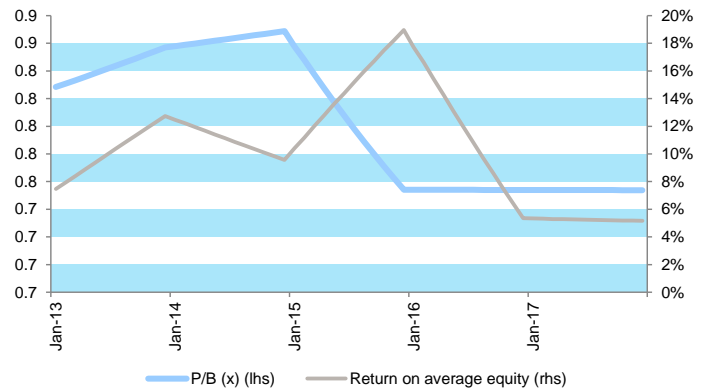


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Starhill Global REIT invests in retail and office buildings in Singapore and overseas.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-07-30	Buy	0.93	0.86
2015-04-21	Buy	0.93	0.88
2015-01-28	Buy	0.91	0.84
2014-10-31	Buy	0.91	0.82

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

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